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NAIROBI FOR OMB - MR. ZUZA

DEPARTMENT PASS TO TREASURY, AID/W AND OMB

E.O. 12356: DECL: OADR
TAGS: EFIN, MASS, EAID, IMF, EG, US
SUBJECT: JULY 12 MEETING WITH MINISTER OF ECONOMY AND
FOREIGN TRADE EL SAID

REF: CAIRO 20958

1. C - ENTIRE TEXT.

2. SUMMARY: MINISTER OF ECONOMY AND FOREIGN TRADE EL SAID TOLD US ON JULY 12 THAT THE GOE WOULD PAY FMS ARREARAGES "GRADUALLY" (NO DATE SPECIFIED) AND SAID IT IS DIFFICULT BUT ALWAYS POSSIBLE FOR THE GOE TO MAKE THE PAYMENTS. FMS PAYMENTS RESULT IN A TRADE-OFF WITH ECONOMIC DEVELOPMENT. THE POLITICAL BENEFIT OF FMS IS DIMINISHED BY SIZEABLE FMS PAYMENTS. THE USG SHOULD ACT ON THE GOE'S FEBRUARY 1984 REQUEST FOR FMS DEBT RELIEF. OMB RESPONDED THAT THE USG IS SYMPATHETIC AND TAKES THE GOE REQUEST SERIOUSLY. A FINAL DECISION SHOULD NOT BE EXPECTED UNTIL AFTER THE NOVEMBER PRESIDENTIAL ELECTION. THE REQUEST INVOLVES A FUNDAMENTAL USG POLICY SHIFT. EL SAID ALSO RAISED THE PEOPLE'S ASSEMBLY DEBATE ON PL-480 SELF-HELP MEASURES, SAYING THAT OPPOSITION POLITICIANS EQUATED THE TOUGH MEASURES WITH USG INTERFERENCE IN EGYPTIAN DOMESTIC AFFAIRS. THIS SORT OF CONTROVERSY ALSO DIMINISHES THE POLITICAL BENEFIT OF U.S. ASSISTANCE. EL SAID SAID THE CHANCE OF AN IMF STAND-BY AGREEMENT DEPENDS UPON THE GOE'S SUCCESS AT REDUCING THE FY 84-85 BUDGET DEFICIT AND MAKING WAGE/PRICE REFORMS. THE GOE MUST BE SEEN AS INDEPENDENT AND NOT AT THE IMF'S MERCY TO AVOID POLITICAL FALLOUT. END SUMMARY.

3. FMS: OMB SENIOR EXAMINER LEONARD ZUZA AND USAID AND ECON OFFICERS ACCOMPANIED ECON MINISTER-COUNSELOR DUNFORD ON HIS JULY 12 FAREWELL CALL ON MINISTER OF ECONOMY AND FOREIGN TRADE MOUSTAFA EL SAID. EL SAID'S ASSISTANT, DR. ROUSHDY ABDEL KHADER, ALSO SAT IN ON THE EGYPTIAN SIDE. LEADING OFF THE AGENDA WAS A DISCUSSION OF FMS DEBT AND ARREARAGES INITIATED BY ZUZA. EL SAID AFFIRMED

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THAT THE GOE WOULD PAY THE FMS ARREARAGES "GRADUALLY" AND SAID IT IS DIFFICULT ("A HARDSHIP") BUT ALWAYS POSSIBLE FOR THE GOE TO PAY THE ARREARAGES. HE DID NOT INDICATE WHEN THE GOE WOULD BEGIN TO PAY CURRENT ARREARAGES OF ABOUT 80 MILLION DOLLARS, SAYING SUCH PAYMENTS ALWAYS RESULT IN TRADE-OFFS WITH GOE ECONOMIC DEVELOPMENT OBJECTIVES. WHILE CONCEDED THAT TIMELY FMS INTEREST PAYMENTS ARE IMPORTANT TO THE OVERALL BILATERAL RELATIONSHIP, EL SAID ADDED THAT THE POLITICAL BENEFIT OF ESF IS DIMINISHED BY SIZABLE FMS INTEREST PAYMENTS. HE ECHOED MINISTER SHINDY'S JULY 11 COMMENT THAT FMS PAYMENTS "EAT" ESF (SEE REFTEL). THE USG SHOULD "DO SOMETHING" ABOUT THE GOE'S FEBRUARY 1984 REQUEST FOR FMS DEBT RELIEF. WITHOUT GOING INTO MUCH DETAIL, ZUZA REPEATED COMMENTS ON FMS DEBT MADE TO MINISTER SHINDY ON JULY 11 BY ASSURING EL SAID THAT THE USG IS SYMPATHETIC TO EGYPT'S NEEDS AND TAKES THE REQUEST FOR DEBT RELIEF SERIOUSLY. A FINAL ANSWER PROBABLY CANNOT BE EXPECTED UNTIL AFTER THE NOVEMBER PRESIDENTIAL ELECTIONS. THE REQUEST POSES DIFFICULTY FOR US BECAUSE IT INVOLVES A FUNDAMENTAL POLICY CHANGE (MULTILATERAL VS. BILATERAL RESCHEDULING) WITH GLOBAL FINANCIAL AND POLITICAL IMPLICATIONS (SEE REFTEL). ZUZA ALSO WARNED DL SAID TO BE ESPECIALLY AWARE OF THE ADVERSE POLITICAL IMPACT OF FMS ARREARAGES OCCURRING AT THE END OF OUR FISCAL YEAR (SEPTEMBER) AND URGED THE GOE TO PAY BEFORE THE END OF SEPTEMBER TO THE EXTENT POSSIBLE.

4. PL-480: EL SAID RAISED THE SUBJECT OF THE VIGOROUS PEOPLE'S ASSEMBLY DEBATE ON THE PL-480 SELF-HELP MEASURES, NOTING THAT OPPOSITION POLITICIANS EQUATED THE TOUGH SELF-HELP MEASURES WITH USG INTERFERENCE IN EGYPTIAN DOMESTIC AFFAIRS. FORTUNATELY, PEOPLE'S ASSEMBLY SPEAKER MAHGOUB WAS ABLE TO DIFFUSE THE SITUATION. EL SAID COMMENTED THAT THE USG MUST BE AWARE THAT THE POLITICAL ATMOSPHERE IS DIFFERENT. THIS SORT OF CONTROVERSY DIMINISHES THE POLITICAL BENEFIT OF U.S. ASSISTANCE. DUNFORD RESPONDED THAT THE GOE SHOULD PORTRAY THE MEASURES AS SOMETHING THE GOE HAD ALREADY DECIDED TO IMPLEMENT. THE USG ALSO MUST MEET ITS CONGRESSIONAL CONCERNS. SELF-HELP MEASURES ARE REQUIRED BY AMERICAN LAW.

5. IMF: IN RESPONSE TO DUNFORD'S QUESTION ABOUT IMF NEGOTIATIONS, EL SAID SAID THE CHANCE OF NEGOTIATIONS DEPENDS UPON THE FY 84-85 BUDGET (TO BE INTRODUCED TO THE PEOPLE'S ASSEMBLY THIS FALL). IF THE GOE CAN DECREASE THE BUDGET DEFICIT AND MAKE WAGE/PRICE REFORMS, IT WILL BE IN

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A STRONGER POSITION TO NEGOTIATE A STANDBY-AGREEMENT. IT IS IMPORTANT THAT THE GOE BE SEEN AS INDEPENDENT AND NOT AT THE IMF'S MERCY TO AVOID POLITICAL FALLOUT. THIS REQUIRES THAT DECISIONS BE MADE ON THE BUDGET BEFORE SERIOUS DISCUSSIONS WITH THE IMF RESUME. AN IMF AGREEMENT IS NEEDED IN THE MEDIUM-TERM (3 TO 5 YEARS) TO STRENGTHEN THE ECONOMY SO IT DOES NOT BECOME THE MAJOR ISSUE IN THE 1989 PEOPLE'S ASSEMBLY ELECTIONS. EL SAID NOTED THAT IT IS USEFUL TO HAVE GOOD RELATIONS WITH THE IMF BECAUSE OF THE IMF'S INFLUENCE WITH THE USG AND OTHERS.

6. DEOB/REOB: ZUZA BRIEFED EL SAID ON THE CURRENT STATUS OF THE USG'S CONSIDERATION OF DEOB/REOB, INDICATING THAT

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THE HOUSE APPROPRIATIONS COMMITTEE'S HEARINGS WILL LIKELY
DETERMINE THE OUTCOME. WE HOPE TO HAVE AN ANSWER BY
AUGUST 1.

7. FOREIGN EXCHANGE: IN RESPONSE TO DUNFORD'S QUESTION
ON EXCHANGE RATES, EL SAID SAID THE GOE HAD MOVED ANOTHER
STEP TOWARD UNIFICATION OF THE TOURIST RATE AND NOTED THAT
HE WOULD LIKE TO ABOLISH THE L.E. 0.84 RATE FOR TOURIST
TRANSACTIONS AT THE AIRPORT. THE SECOND STEP IS RECORD-
ING INVESTMENT CAPITAL AT THE L.E. 1.12 RATE. HE HOPES
THE GOE WILL BE ABLE EVENTUALLY TO TERMINATE ALL TRANS-
ACTIONS AT THE L.E. 0.84 RATE. VELIOTES
END OF MESSAGE

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